

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)
)
Auction of Advanced Wireless Services) AU Docket No. 06-30
Licenses Scheduled for June 29, 2006)

To: The Wireless Telecommunications Bureau

**REPLY COMMENTS
OF
ALLTEL CORPORATION**

Alltel Corporation (“Alltel”) respectfully submits its reply to the comments filed in response to the *Public Notice* on proposed auction procedures for the Advanced Wireless Service-1 (“AWS-1”) spectrum auction (“Auction 66”).¹ Like Alltel, the overwhelming majority of commenters urge the Wireless Telecommunications Bureau (“Bureau”) to adopt existing auction procedures and refrain from making the AWS-1 auction a test bed for applying unproven theories to spectrum auctions. In particular, Alltel and the vast majority of commenters support the Bureau’s proposal to conduct a single simultaneous multiple-round (“SMR”) auction and strongly oppose the proposal to limit bidder and bid information.

Numerous commenters highlight the importance of Auction 66. It is “the first significant expansion of allocated spectrum for third generation (‘3G’) mobile wireless systems,”² and the 90 MHz of spectrum to be made available exceeds the amount of spectrum auctioned in any of

¹ *Auction of Advanced Wireless Services Licenses Scheduled for June 29, 2006*, Public Notice, Rep. No. AUC-06-66-A, DA 06-238 (WTB rel. Jan. 31, 2006) (“*Public Notice*”).

² Comments of CTIA – The Wireless Association®, AU Docket No. 06-30, at 2 (filed Feb. 14, (continued...))

the Broadband PCS auctions.³ With this “rare opportunity to open up a large swath of newly-allocated terrestrial wireless spectrum,” the Commission should apply “tried and true auction procedures that it has developed over the auction program’s history.”⁴

I. THE BUREAU SHOULD ADOPT ITS PROPOSAL TO CONDUCT A SINGLE SMR AUCTION AND REFRAIN FROM ANY PACKAGE BIDDING FORMAT.

Nationwide carriers,⁵ regional carriers,⁶ smaller independents and rural carrier representatives,⁷ investors,⁸ and academics⁹ support the Bureau’s proposal to conduct Auction 66 using the standard SMR auction format. As these comments demonstrate, there is “no

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2006).

³ Joint Comments of Columbia Capital LLC and MC Venture Partners, AU Docket No. 06-30, at 3 n.11 (filed Feb. 14, 2006) (comparing the AWS-1 auction to the Broadband PCS A & B Block auction, the C Block auction, and the D, E, and F Block auction) (“Columbia Capital and MC Venture Partners Joint Comments”).

⁴ Comments of Cingular Wireless LLC, AU Docket No. 06-30, at 12 (filed Feb. 14, 2006) (“Cingular Comments”).

⁵ See Cingular Comments; Comments of Sprint Nextel Corporation, AU Docket No. 06-30 (filed Feb. 14, 2006) (“Sprint Nextel Comments”); Comments of T-Mobile USA, Inc., AU Docket No. 06-30 (filed Feb. 14, 2006) (“T-Mobile Comments”).

⁶ See Comments of Alltel Corporation, AU Docket No. 06-30 (filed Feb. 14, 2006); Comments of Centennial Communications Corp., AU Docket No. 06-30 (filed Feb. 14, 2006); Comments of United States Cellular Corporation, AU Docket No. 06-30 (filed Feb. 14, 2006).

⁷ See Comments of Leap Wireless International, Inc., AU Docket No. 06-30 (filed Feb. 14, 2006) (“Leap Wireless Comments”); Comments of MetroPCS Communications, Inc., AU Docket No. 06-30 (filed Feb. 14, 2006) (“MetroPCS Comments”); Comments of NTCH, Inc. dba Clear Talk, AU Docket No. 06-30 (filed Feb. 14, 2006); Comments of WirefreePartners III, LLC, AU Docket No. 06-30 (filed Feb. 14, 2006); Comments of NTCA, AU Docket No. 06-30 (filed Feb. 14, 2006); Comments of Rural Telecommunications Group, LLC, AU Docket No. 06-30 (filed Feb. 14, 2006) (“Rural Telecommunications Group Comments”); see also e.g. Letter to Marlene H. Dortch, Secretary, FCC, from Daryl Carson, General Manager, Webster-Calhoun Cooperative Telephone Association, AU Docket No. 06-30 (filed Feb. 13, 2006).

⁸ See Columbia Capital and MC Venture Partners Joint Comments.

⁹ See Comments of Paul Milgrom and Gregory Rosston, Stanford Institute for Economic Policy Research, AU Docket No. 06-30 (filed Feb. 14, 2006) (“Paul Milgrom and Gregory Rosston Comments”).

compelling reason to abandon the well tested SMR bidding process for a risky package bidding alternative of uncertain benefit.”¹⁰ The Bureau should adopt its SMR auction proposal and take a pass on package bidding in Auction 66.

Only Verizon Wireless asserts “the time is ripe” for package bidding and urges the Bureau to adopt a separate, sequential SMR-package bidding auction for AWS-1 Blocks E and F to allow “those bidders seeking nationwide or larger geographic and spectral combinations to aggregate those licenses more efficiently.”¹¹ The Bureau should reject this proposal. First, “there is no compelling evidence indicating that package bidding is necessary in order to conduct an efficient auction.”¹² Indeed, as the *Public Notice* itself acknowledges, “a single standard SMR auction will provide bidders with the simplest and most flexible means of obtaining single AWS-1 licenses *or aggregations of AWS-1 licenses.*”¹³ Second, package bidding may not ensure that licenses are put to their highest valued use. Commenters explain that smaller bidders may not be able to beat out a package bidder even where the smaller bidders place a higher aggregate value on the licenses than the package bidder does, the so-called “threshold” problem.¹⁴ Further,

¹⁰ MetroPCS Comments at 9.

¹¹ Comments of Verizon Wireless, AU Docket No. 06-30, at 4 (filed Feb. 14, 2006).

¹² MetroPCS Comments at 8 and n.17 (citing the results of Auction No. 3 (Narrowband PCS), which licensed large regions similar in scope to REAGs and demonstrated that bidders can assemble a nationwide footprint in an SMR auction).

¹³ *Public Notice* at 5 (emphasis added).

¹⁴ *See* Leap Wireless Comments at 4; Sprint Nextel Comments at 3. Sprint Nextel describes the threshold problem as follows. Consider a regional business that seeks to acquire the AWS E Block license covering Puerto Rico. It values the Puerto Rice license at \$80 million and the nearby AWS E Block Gulf of Mexico license at \$35 million. Suppose another small regional bidder values the Gulf of Mexico license at \$70 million and the Puerto Rico license at \$45 million. A third bidder seeking a nationwide footprint values both licenses at \$120 million collectively but assigns no value to obtaining just one of the two licenses. With a bid of \$120 million, the third bidder could win the two licenses “even though the two regional players collectively valued their preferred individual licenses at \$150 million – a far higher price than the
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under the Bureau’s concurrent package bidding auction option, “eligibility management between the two auctions and arbitraging between licenses would be extremely challenging, have no real precedent in practice, and could lead to problems during the auction.”¹⁵

Paul Milgrom and Gregory Rosston of the Stanford Institute for Economic Policy Research observe, “[d]espite our enthusiasm for package bidding in appropriate applications, we do not think that the current proposal for running a package auction at the same time as an SMR auction would be the best way for the FCC to proceed either for assigning this block of spectrum or for advancing the FCC’s package bidding program.”¹⁶ T-Mobile rightfully concludes, the AWS-1 auction “is too large, complex and significant for the Commission to introduce any such major innovation or experimentation.”¹⁷

II. THE BUREAU SHOULD NOT ADOPT THE PROPOSAL TO CONCEAL BIDDER AND BIDDING INFORMATION.

Commenters overwhelmingly urge the Bureau to reconsider the proposal to conceal bidder and bidding information and instead to conduct Auction 66 in a fully transparent manner in accordance with long-standing FCC auction information disclosure policy. In the absence of any evidence demonstrating the need to revise the policy of full transparency, the proposal “is a solution in search of a problem” threatening to “undermine investor and bidder confidence in the auction, not promote it.”¹⁸

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large national bidder was willing to offer.” Sprint Nextel Comments at 3.

¹⁵ T-Mobile Comments at 4.

¹⁶ Paul Milgrom and Gregory Rosston Comments at 2.

¹⁷ T-Mobile Comments at 4.

¹⁸ Leap Wireless Comments at 12.

In considering whether to adopt the proposal, the Bureau must balance any purported benefits against its real and documented costs. Citing to theoretical studies, the *Public Notice* suggested a concern that the current policy of full transparency may lead to anti-competitive behavior in Auction 66. The record is mixed on whether bidding information has led to behavior resulting in less efficient outcomes in the past – but it is clear that over the years the Bureau has adopted standard auction rules that effectively limit the possibility of such behavior in the future. Economist Peter Cramton observes, “given the protections the FCC has already implemented – the elimination of bid signaling and the limits on the use of withdrawals – I believe the FCC should favor full transparency in the AWS auction, which promises to be a competitive auction.”¹⁹

The record also demonstrates clear evidence that transparency furthers economic efficiency: “[t]ransparency provides useful information on the value of licenses to bidders and will promote rational bidding and can result in higher auction revenues.”²⁰ The Rural Telecommunications Group, for example, points out that disclosure of bidders and bid amounts has “greatly benefited rural carriers.”²¹ Rural carriers “will have a hard time making rational bidding decisions if they do not know the identities of their neighboring bidders,” as they often make technological and business decisions based on the equipment and technologies used by

¹⁹ Declaration of Peter Cramton at 5, *filed as an attachment to T-Mobile Comments* (“Cramton Declaration”). Cramton contrasts the AWS-1 auction to the auction of Broadband PCS Blocks D, E, and F and identifies new rules that restrict the potential of collusive behavior: “in the AWS auction, 1) there are significant reserve prices, 2) a bidder can only make withdrawals in two rounds, 3) bids are in a whole number of bid increments, and 4) the FCC has refined [] effective tools to manage the pace of the auction, assuring closure in a matter of weeks, rather than months. Armed with these protections, the FCC should be less concerned with the risk of collusive bidding in the AWS auction.” *Id.* at 6.

²⁰ T-Mobile Comments at 4.

²¹ Rural Telecommunications Group Comments at 2.

their much larger urban neighbors to offer compatible services and to limit the potential for interference.²² In addition, a bidder might value a license more highly “if it expects to be the only carrier in that market using its own technology.”²³ Although Verizon Wireless asserts that limits on bidder and bidding information will ensure that “the focus rightfully is on licenses and their value, not on other bidders and their bidding strategies,”²⁴ the record above demonstrates that full transparency – including the status of bidder interest and bidding information – assists many bidders in determining the value of licenses.

Perhaps most importantly, the Bureau should recognize that Auction 66 may usher in a new generation of wireless services and new entrants in the wireless market – and in this new era, bidder and bidding information may have a direct impact on spectrum valuation.²⁵ Many potential bidders are eyeing the AWS-1 spectrum as they explore wireless broadband deployment strategies. With the transition to wireless broadband still in its nascent stage, Cramton observes that “[b]idders are uncertain about build-out costs, penetration rates, prices, and market shares. The information revealed in an open auction can help bidders learn about these values.”²⁶ Even academics who subscribe to restricted information auction theory recognize that such an approach “is not without cost,” as Professors Brusco and Lopomo acknowledge, “in the presence of significant uncertainty about the technology and thus the actual market value of the licenses for sale, releasing information about the behavior of others can help bidders to better assess the value of different combinations of licenses, and thus lead to a more

²² *Id.*

²³ T-Mobile Comments at 8.

²⁴ Verizon Wireless Comments at 5.

²⁵ *See* Cingular Comments at 8-9.

²⁶ Cramton Declaration at 3.

efficient outcome.”²⁷ Although Professors Brusco and Lopomo articulate a standard to consider bidder and bidding information policy, they fail to apply the standard properly as they do not account for the advent of next generation wireless broadband and its impact on the wireless market and the Auction 66.²⁸

As Alltel noted in its initial comments, back in 1994 the Commission affirmed the benefits of full transparency but retained the flexibility to limit information in the future “*if further experience shows that it would be feasible and desirable to do so.*”²⁹ The record does not establish sufficient experience to warrant such a change in policy to conceal bidder and bidding information. Alltel urges the Bureau not to apply an untested theory of auction information to Auction No. 66. As Cingular concludes, “whatever ‘potential’ harm exists ... is far outweighed by the benefits of an open and transparent bidding process.”³⁰

²⁷ Comments of Professor Sandro Brusco, State University of New York – Stony Brook, and Professor Giuseppe (Pino) Loposmo, The Fuqua School of Business, Duke University, AU Docket No. 06-30, at 2 (filed Feb. 14, 2006).

²⁸ *See id.*

²⁹ *Implementation of Section 309(j) of the Communications Act - Competitive Bidding*, Second Memorandum Opinion and Order, 9 FCC Rcd 7245, 7252 (1994) (emphasis added).

³⁰ Cingular Comments at 7.

III. CONCLUSION.

For the reasons stated above, there is no compelling reason to impose new, untested bidding procedure rules in Auction 66. Alltel urges the Bureau to adopt proven procedures.

Respectfully submitted,

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